

THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY

OF

A. RANDY WATTS

OCTOBER 17, 2008



DOCKET NO. 2008-196-E

**Combined Application of South Carolina Electric & Gas
Company for a Certificate of Environmental Compatibility and
Public Convenience and Necessity for a Base Load Review
Order for the Construction and Operation of a Nuclear Facility
in Jenkinsville, South Carolina**

DIRECT TESTIMONY OF

A. RANDY WATTS

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2008-196-E

**IN RE: COMBINED APPLICATION OF SOUTH CAROLINA ELECTRIC & GAS
COMPANY ("SCE&G" or the "Company") FOR A CERTIFICATE OF
ENVIRONMENTAL COMPATIBILITY AND PUBLIC CONVENIENCE AND
NECESSITY FOR A BASE LOAD REVIEW ORDER FOR THE
CONSTRUCTION AND OPERATION OF A NUCLEAR FACILITY AT
JENKINSVILLE, SOUTH CAROLINA**

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Randy Watts. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as Program Manager of the Electric Department for the Office of Regulatory Staff ("ORS").

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree in Electrical Engineering from the University of South Carolina in Columbia in 1976. I was employed at that time by the Public Service Commission of South Carolina ("Commission") as a Utilities Engineer in the Electric Department and was promoted to Chief of the Electric Department in August 1981. Subsequent to internal Commission restructuring, my position was redesignated Chief of Electric in October 1999. I remained in that role until transferring to my current

**THE OFFICE OF REGULATORY STAFF
1401 Main Street, Suite 900
Columbia, SC 29201**

position with ORS in January 2005. I have testified on numerous occasions before the Commission in conjunction with fuel clause, complaint, territorial assignment, Siting Act and general rate case proceedings.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to provide the results of ORS Electric Department's review of SCE&G's Combined Application for a Certificate for construction and operation of the Company's proposed two (2) new nuclear units at the site of the existing VC Summer Nuclear Station located near Jenkinsville, South Carolina. The Company's Application was filed pursuant to the Base Load Review Act ("the Act"), S.C. Code Ann. Section 58-33-210 *et seq.* (Supp. 2007). Our review addressed the issues of rate design, jurisdictional and class allocation factors, and rate revenue verification.

Q. PLEASE PROVIDE YOUR ANALYSIS OF THE COMPANY'S PROPOSED RATE DESIGN.

A. Section 58-33-270 (D) of the Act in general requires that..."In establishing revised rates, all factors, allocations, and rate designs shall be as determined in the utility's last rate order...". I have reviewed the Company's proposed tariffs and rates in this filing and found the rate designs are consistent with those approved in the Company's last rate case Order No. 2007-855 issued on December 14, 2007 under Docket No. 2007-229-E.

Q. DID ORS VERIFY THAT THE PROPOSED REVISED RATES GENERATED THE ADDITIONAL REVENUE AMOUNT THAT THE COMPANY REQUESTED IN THE APPLICATION?

1 **A.** Yes. The Company's target revenue increase was \$8,986,000 as shown on Exhibit
2 M, Chart A of the Application and exhibits of Company witness Best. Due to the general
3 complexity of rate designs of the various tariffs, their interdependent relationships, and
4 the vast amount of billing determinants, it is difficult to set rates to generate a precise
5 dollar amount. In these instances it is common practice to adjust rates while maintaining
6 the appropriate rate design, and generate revenues as close to the desired level without
7 exceeding the targeted amount. The Company has done this in this case with the resulting
8 revenue increase of \$8,981,199 or approximately \$5,000 less than the targeted amount.

9 **Q. WHAT METHODOLOGY DOES THE BASE LOAD REVIEW ACT REQUIRE**
10 **BE USED TO SPREAD THE ADDITIONAL REVENUE REQUIREMENT?**

11 **A.** Section 58-33-270 (D) of the Act requires "...that the additional revenue
12 requirement to be collected through revised rates shall be allocated among customer
13 classes based on the utility's South Carolina firm peak demand data from the prior year."

14 **Q. DID THE COMPANY USE THIS METODOLOGY IN DETERMINING THE**
15 **REVISED RATES IN THIS PROCEEDING?**

16 **A.** Yes. The Company used the summer 2007 coincident class peaks to determine the
17 appropriate percentage upon which to spread the requested additional revenue
18 requirement to the Residential, Small General, Medium General, and Large General
19 Service class categories. The actual retail peak load class and revenue spread data are
20 shown on Exhibit K of Company witness Jackson as well as in the Application.

21 **Q. WHAT OTHER FACTORS WERE PERTINENT IN ORS' REVIEW OF THE**
22 **COMPANY'S APPLICATION?**

A. The standard procedure for determining the proper spread would be to initially allocate system costs and revenues to the various jurisdictions across the Company's entire body of customers. These could include not only retail and wholesale, but also multi-state jurisdictions as well. In the case of SCE&G there are only two jurisdictions that make up the Company's South Carolina system, which are retail and wholesale. In the course of ORS' review and examination of SCE&G's filing, we discovered the Company failed to allocate any of the proposed plant costs or revenue requirement to its wholesale jurisdiction. Based on the Company's summer 2007 coincident peak, the resulting allocations to retail and wholesale are 94.33% and 5.67%, respectively. Therefore, before the revenue requirement can be spread to the retail class categories the total requirement must first be separated between the wholesale and retail jurisdictions. These allocation factors were provided to ORS's Audit Department.

Q. WHAT EFFECT DOES THE COMPANY'S FAILURE TO ALLOCATE ANY OF THE ADDITIONAL REVENUE REQUIREMENT TO THE WHOLESALE JURISDICTION HAVE ON THE PROPOSED REVISED RETAIL RATES?

A. The result is an over statement of the revenue requirement to the South Carolina retail class and subsequent revised rates that are excessive.

Q. WHAT IS THE CORRECT AMOUNT OF ADDITIONAL REVENUE REQUIREMENT FOR THE SOUTH CAROLINA RETAIL CLASS?

A. It is first necessary to establish the total Company revenue requirement for the period ending June 30, 2008. This total Company revenue amount of \$8,271,484 is shown on ORS Audit Department witness Malini Gandhi's Attachment A to Audit Exhibit MG-1 which also states the actual completed Construction Work In Progress per

book amount as of June 30, 2008. Application of the retail jurisdictional factor of 94.33% to this total Company revenue requirement results in an additional retail revenue requirement of \$7,802,491.

Q. HOW DOES THIS COMPARE TO THE REQUEST IN THE COMPANY'S APPLICATION?

A. The Company's requested revenue increase to the retail class is \$8,986,000. ORS's proposed additional retail revenue requirement of \$7,802,491 is \$1,183,509 or approximately 13.2% less than SCE&G's original request in this proceeding.

Q. DOES ORS HAVE A RECOMMENDATION FOR ALLOCATING THIS ADDITIONAL REVENUE REQUIREMENT?

A. Yes. The \$7,802,491 in additional revenue requirement should be allocated among the South Carolina retail classes based on each class's contribution to SCE&G's South Carolina firm peak demand in 2007. This is consistent with the method used by the Company in spreading the revenue requirement shown in the Application which erroneously included an amount that should have been allocated to the wholesale jurisdiction. The allocation for the four major retail class categories is shown on ORS Exhibit ARW-1. ORS recommends these four retail customer class revenues be used by SCE&G in determining the amount to be spread to each appropriate tariff/Rate Schedule. The revenues apportioned to each tariff/Rate Schedule should be in the same proportion as in the Company's Application.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

SOUTH CAROLINA ELECTRIC & GAS COMPANY

RATE DESIGN SUMMARY INCREASE ON MAY, 2008 RATES

CLASS OF SERVICE	SCE&G			ORS	
	MAY, 2008 REVENUE	PROPOSED REVENUE	\$ CHANGE	\$ CHANGE	% CHANGE
RESIDENTIAL	\$ 828,150,951	\$ 832,473,171	\$ 4,322,220	\$ 3,752,998	0.45%
SMALL GENERAL SERVICE	\$ 335,699,495	\$ 337,313,895	\$ 1,614,400	\$ 1,402,888	0.42%
MEDIUM GENERAL SERVICE	\$ 198,903,532	\$ 199,913,523	\$ 1,009,991	\$ 879,341	0.44%
LARGE GENERAL SERVICE	\$ 465,063,123	\$ 467,097,711	\$ 2,034,588	\$ 1,767,264	0.38%
TOTAL			\$ 8,981,199	\$ 7,802,491	